Pepco may charge more due to outages

By Joe Stephens
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Pepco customers who struggled through up to five days without power last week could soon pay for the privilege.

Under a little-noticed decision by Maryland regulators, Pepco for years has been authorized to raise rates temporarily to recover money it loses when electricity use drops. The system was meant to encourage energy conservation.

But as an unintended consequence, customers could help make the company whole for outage-related losses next month by paying Pepco more than they would have otherwise. The higher rates would apply to all Maryland customers, including those who shivered in the dark for days.

"They are paying for delivery of electricity they did not receive," said Eric Friedman, director of the Montgomery County Office of Consumer Protection.

On Wednesday, Montgomery County Council member Roger Berliner (D-Potomac-Bethesda) called for Pepco to return to customers revenue collected after every major power outage since 2007. It is unclear how that could be accomplished or how much money it would involve, but Berliner estimated it could total millions of dollars.

The complicated billing mechanism is known as "bill stabilization adjustment," or decoupling. Power distribution rates are adjusted upward when customers use less electricity and downward when they use more. The actual adjustment for January usage has yet to be determined.

Similar billing arrangements have been adopted in recent years in a number of states. But in Maryland, the billing adjustment is colliding with a string of outages at Pepco in the past year. Some critics have said that the billing system has removed any incentive for Pepco to reduce outages or to rush to restore service once the lights go out. Either way, Pepco is guaranteed the same rate of return.

Bryan Moorhouse, an attorney for the state Public Service Commission, declined to discuss how last week's storm outages - which lasted for days and affected more than 200,000 Pepco customers - might be reflected in electrical bills. On Tuesday afternoon, however, the commission posted a notice on its Web site saying that it planned to look into billing concerns.

The billing adjustment, the notice said, "may be allowing the Company to recover revenues lost during extended outages, and thus may have unwittingly eliminated a critical incentive to restore service quickly." The notice said the commission would explore whether the system might have made Pepco "financially indifferent" to prolonged outages, including those after snowstorms last February and thunderstorms in July.

Pepco officials said they would cooperate with the PSC investigation.

Some other power companies in Maryland have similar billing arrangements, including Baltimore Gas and Electric. But outages have not been a major issue for those companies, and they were not mentioned in the commission's notice. In the District, regulators said they specifically exclude usage figures from major outages when calculating bill adjustments.

Pepco officials said they were unaware of any concerns about the billing system. In written responses to questions from The Washington Post, the officials said Pepco is committed to keeping the lights on regardless of the adjustments. "The Company is highly incented to increase reliability," Pepco officials wrote.

They added that Pepco had "no objection" to removing periods of major outages from their billing calculations in Maryland.

Pepco officials noted that because of extreme temperatures in 2010, the system resulted in a $3.3 million credit for Maryland customers. The adjustment applies only to the distribution portion of customers' electric bill, the roughly 25 percent that pays for delivering electricity to a home or business. Pepco no longer generates electricity.

For a typical Maryland residential customer in 2010, Pepco said, the monthly credits averaged $1.88 and monthly additional charges averaged $1.59.

Some customers were angered over the possibility of paying for the outages.

"That's just mind-boggling," said Michael Weiner of Gaithersburg, whose family went without power for five days last week. He pointed out that no one has sought to reimburse him and his neighbors for food that spoiled during the outages.

The Maryland Office of People's Counsel, which represents consumer interests, asked regulators to reconsider the arrangement last month, saying Pepco should not be rewarded with additional revenue if the blackouts were extended by "deficient service." Paula M. Carmody, who directs the office, said this week that she welcomed the commission's action and that the billing system needs to be modified or scrapped.

A Washington Post investigation published in December found that Pepco's day-to-day reliability began declining five years ago and that Pepco ranks at or near the bottom in national surveys of reliability. The average Pepco customer experienced 70 percent more outages than customers of other utilities in major metropolitan areas.

Berliner described money Pepco had collected after major outages as "ill-gotten gains."

"Every dollar should be returned to consumers as a small step toward making it right," Berliner said. "You take the dollars Pepco has earned in all the outages since 2007, I would be shocked if it wasn't millions of dollars. They got dollars they never should have gotten."

Staff writers Katherine Shaver and Mary Pat Flaherty contributed to this report.